



### Summary

The French economy recovers gradually and the outlook for the coming years is that the economy will stick to this path of moderate economic growth. An important reason is that the austerity measures will put a drag on growth. We believe the consolidation measures are necessary and even doubt whether president Sarkozy will be able and willing to establish sufficient budget cuts.

### Things to watch:

- The extent of fiscal consolidation to ensure the sustainability of public finances
- The sticky labour market with high unemployment and a low rate of labour participation
- Competitiveness of French firms: focus on wage moderation and innovation

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France			
<b>National facts</b>		<b>Social and governance indicators</b> rank / total	
Type of government	Republic	Human Development Index (rank)	14 / 169
Capital	Paris	Ease of doing business (rank)	26 / 183
Surface area (thousand sq km)	640.1	Economic freedom index (rank)	64 / 179
Population (millions)	62.6	Corruption perceptions index (rank)	25 / 178
Main languages	French (100%)	Press freedom index (rank)	44 / 178
Main religions	Catholic (85%)	Gini index (income distribution)	32.8
	Muslim (8%)	Population below \$1.25 per day (PPP)	N/A
	Protestant (2%)		
Head of State (president)	Nicolas Sarkozy	<b>Foreign trade</b> 2009	
Head of Government (prime-minister)	Francois Fillon	<i>Main export partners (%)</i>	<i>Main import partners (%)</i>
Monetary unit	EUR	Germany	20
		Italy	12
		Spain	8
		Belgium	7
<b>Economy</b> 2010		<i>Main export products (%)</i>	
<i>Economic size</i>	<i>bn USD</i>	<i>% world total</i>	
Nominal GDP	2606	4.19	Machinery and transport equipment
Nominal GDP at PPP	2124	2.87	Chemicals and related products, n.e.s.
Export value of goods and services	663	3.55	Food, drinks and tobacco
IMF quatum (in mln SDR)	10739	4.94	Mineral fuels, lubricants, and related materials
<i>Economic structure</i>	<i>2010</i>	<i>5-year av.</i>	<i>Main import products (%)</i>
Real GDP growth	1.5	0.8	Machinery and transport equipment
Agriculture (% of GDP)	2	2	Chemicals and related products, n.e.s.
Industry (% of GDP)	19	20	Mineral fuels, lubricants, and related materials
Services (% of GDP)	79	78	Food, drinks and tobacco
<i>Standards of living</i>	<i>USD</i>	<i>% world av.</i>	<i>Openness of the economy</i>
Nominal GDP per head	41405	421	Export value of G&S (% of GDP)
Nominal GDP per head at PPP	33746	289	Import value of G&S (% of GDP)
Real GDP per head	35421	443	Inward FDI (% of GDP)

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

### Full report:

The effects of the financial crisis in France were relatively modest from a European perspective (GDP -2.5% in 2009). But the factors that sheltered the economy during the crisis (limited 'openness', large automatic stabilizers), are the reasons why the economic recovery is also only moderate (GDP +1.5% in 2010). Last year's growth was driven by strong private consumption and very robust growth of world trade. Government consumption also contributed to growth, but this will change from 2011 onwards. Unemployment rose strongly from 7.4% in 2008 to a peak of 9.9% in 2010. The sticky labour market shows limited signs of improvement, with a still stubbornly high unemployment rate (9.6% in January 2011) as a result.

The outlook for the coming years shows only moderate growth (1.5 – 2.0% y-o-y). An important reason is that austerity measures will kick in this year. These measures also limit private consumption growth as they affect the disposable income of households. As a result of this fiscal consolidation, persistent unemployment and rising inflation, consumer confidence is below its long term average. On a positive note, producer confidence (in both the services and the industry sectors) is reaching high levels since the end of 2010, which bodes well for production recovery and investment growth. Also exports might contribute to growth in the short term, although this is dependent on the euro (which is currently appreciating) and on the developments in world trade. In the medium term the weakening competitiveness of the export sector, mainly related to rising unit labour costs, will become more visible and export growth might slow down.

The public finances deteriorated strongly during the crisis and form a major challenge going forward. The French government has a long tradition of budget deficits, but the crisis worsened the deficit from 2.7%-GDP in 2007 to 7.8%-GDP in 2010. Public debt during this period rose from 64%-GDP to 84%-GDP and given the current high deficits it will probably rise further to over 90%-GDP by 2013. The public net financial asset position is -51%-GDP in 2009. Despite the worrying deficit and debt levels, financial markets still see France as a 'safe haven' and interest rates on government bonds remain low. To retain this level of market confidence, the government announced to bring back the public deficit to 3%-GDP in 2013. However it is questionable whether this will be attained as not many concrete measures (beyond 2011) have been announced so far and it remains to be seen whether president Sarkozy dares to announce them in the light of the upcoming elections (May 2012). The centre-right UMP of president Sarkozy is losing approval and is expected to get seriously challenged next year by the Socialists Party (PS) and to a lesser extent by the Front National (FN). As a result of that is not expected that president Sarkozy will introduce the harsh consolidation measures in 2011 and 2012 that are necessary. On a positive note, due to the absence of these measures the economic recovery might remain substantial in the short term. However, sooner or later structural consolidation needs to take place, especially due to the upcoming aging. In 2010 president Sarkozy, despite large-scale protests, took a first step with the reform of the very generous pension system (he raised the minimum retirement age from 60 to 62, and for full pension-entitlements from 65 to 67). That said, the rising age-related health care spending still remains a challenge in the long term. Besides that, in the labour market the strong employment protection needs to be reduced to facilitate job creation and to increase the very low labour participation rate (69.5% of the potential labour force).

The French private sector is relatively healthy. The balance sheets of households are relatively sound, while the leverage of firms is average from a European perspective. However, in 2004 France as a whole shifted from a current account surplus to a deficit. While these deficits are not large by international standards, they are persistent and will lead to a gradual build-up of a negative net international investment position. An important cause of this deterioration is the relatively high wage growth. If France wants to keep benefiting from export growth in the medium term, this requires moderate wage growth, more innovation/research and the creation of more favourable business conditions.

France							
Selection of economic indicators	2006	2007	2008	2009	2010	2011e	2012f
<i>Key country risk indicators</i>							
GDP (% real change pa)	2.4	2.3	0.1	-2.5	1.5	1.4	1.5
Consumer prices (average % change pa)	1.7	1.5	2.8	0.1	1.5	1.7	1.9
Current account balance (% of GDP)	-0.6	-1.0	-1.9	-2.0	-1.9	-2.2	-2.4
<i>Economic growth</i>							
GDP (% real change pa)	2.4	2.3	0.1	-2.5	1.5	1.4	1.5
Gross fixed investment (% real change pa)	4.5	5.9	0.3	-7.0	-1.8	1.6	2.3
Private consumption (real % change pa)	2.6	2.5	0.5	0.6	1.5	1.1	1.4
Government consumption (% real change pa)	1.3	1.5	1.6	2.8	1.4	0.5	0.6
Exports of G&S (% real change pa)	5.0	2.5	-0.8	-12.2	10.1	6.2	3.4
Imports of G&S (% real change pa)	5.9	5.7	0.3	-10.6	9.2	6.8	4.0
<i>Economic policy</i>							
Budget balance (% of GDP)	-2.3	-2.7	-3.3	-7.5	-7.8	-6.4	-5.5
Public debt (% of GDP)	64	64	68	78	84	87	90
Money market interest rate (%)	3.1	4.3	4.6	1.2	0.8	1.0	1.5
M2 growth (% change pa)	4	8	7	6	8	7	6
Consumer prices (average % change pa)	1.7	1.5	2.8	0.1	1.5	1.7	1.9
Exchange rate LCU to USD (average)	0.8	0.7	0.7	0.7	0.8	0.8	0.8
Recorded unemployment (%)	8.8	8.0	7.4	9.1	9.4	9.3	9.1
<i>Balance of payments (mln USD)</i>							
Current account balance	-12990	-26610	-54790	-51860	-49000	-55300	-60900
Trade balance	-38120	-56810	-87260	-61960	-73200	-78400	-75900
Export value of goods	484770	548530	605320	473860	519200	564900	567700
Import value of goods	522890	605340	692580	535830	592400	643300	643600
Services balance	15530	19730	25630	16050	13800	13600	13900
Income balance	37370	42880	41790	31840	47500	45600	36800
Transfer balance	-27770	-32400	-34960	-37790	-37100	-36000	-35700
Net direct investment flows	-39580	-68780	-100630	-87100	-84780	-77360	-75050
<i>External position (mln USD)</i>							
International investment position	26430	-43250	-322480	-315930	N/A	N/A	N/A
Total assets	5887590	7192490	6062630	6815900	N/A	N/A	N/A
Total liabilities	5861160	7235740	6385110	7131830	N/A	N/A	N/A
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	-1.7	-2.2	-3.0	-2.3	-2.8	-3.1	-3.0
Current account balance (% of GDP)	-0.6	-1.0	-1.9	-2.0	-1.9	-2.2	-2.4
Inward FDI (% of GDP)	3.2	3.8	2.3	2.3	1.5	2.1	2.6
International investment position (% of GDP)	1.2	-1.7	-11.3	-11.9	N/A	N/A	N/A

Source: EIU

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